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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 001057

SIPDIS

STATE FOR EAP/BCLTV, EB/ENR
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TREASURY FOR OASIA JEFF NEIL
USPACOM FOR FPA

E.O. 12958: DECL: 08/17/2014
TAGS: ENRG ECON PGOV BM
SUBJECT: BURMA'S ENERGY SECTOR: WHISTLING IN THE DARK

REF: A. RANGOON 1014 AND PREVIOUS

¶B. RANGOON 802
¶C. RANGOON 191 AND PREVIOUS

Classified By: CDA a.i. Ron McMullen for Reasons 1.4 (B,D)

¶1. (C) Summary: With the worst of Rangoon's dry season blackouts easing during the current monsoon rains, many are pondering whether the GOB will fix Burma's chronic energy problems before next spring. Signs most definitely point to 'No.' Burma's energy situation continues to suffer from three major problems: lack of access to natural gas, poor maintenance of existing infrastructure, and a single-minded obsession with vast hydropower projects whose finish dates are regularly missed. We see very little to indicate the GOB intends to expand efforts to fix any of these. End summary.

Don't Want Gas

¶2. (SBU) Though Burma has abundant offshore, and some onshore, natural gas deposits the GOB has stubbornly refused to use these resources to feed domestic demand. During 2003-04's annual dry season (November-May) electricity crisis, the GOB did not change this position. Instead, talk in policymaking circles remained focused on construction of a liquefied natural gas plant on the western coast to export all that might emerge from a prospective offshore development of gas near the Rakhine coast (ref B). This shortsightedness was lightly papered over by an increase in production of gas for domestic consumption at the Nyaungdoun gas field (about 50 miles west of Rangoon). The field, which is being unsustainably overdeveloped, is producing around 80 million cubic feet per day (mcfd), up from about 60 mcfd a year ago. The increase made up for the steady decline of Burma's other major domestic gas field, A'Pyauk (about 50 miles northwest of Rangoon), where production fell from 35 mcfd in mid-2003 to around 20 mcfd in mid-2004. A western energy source told us that both gas fields should be tapped out within the next couple of years, and there are no replacements being considered.

¶3. (SBU) Industry estimates of Burma's total natural gas demand (for power generation and industry) remain stable at around 240 mcfd. To augment the roughly 140 mcfd the government takes from Nyaungdoun, A'Pyauk, and a smattering of other fields, the GOB continues to purchase between 25-45 mcfd of offshore gas from the foreign consortium that operates the Yadana and Yetagun offshore gas fields. The vast majority of the gas from these fields (around 900 mcfd combined in CY 2004) is sold to Thailand under an existing "take or pay" deal with Thai energy authorities. However, the GOB purchases some and diverts it northward from where the undersea pipeline comes onshore at Kanbauk in Tanintharyi Division. This gas, except 4-5 mcfd which is sent all the way to Rangoon, is earmarked for a GOB cement plant in Myaingalay, though, so it does not impact the electricity situation for Rangoon much. Rangoon's turbines do continue to benefit from 8 mcfd of gas, previously being sent from A'Pyauk to the plant, which is being reversed to feed Rangoon's local power generation facilities.

Infrastructure Woes

¶4. (C) This supply shortage leaves a deficit of around 50-60 mcfd just to fuel Burma's anemic industrial sector and handful of gas/diesel-powered generating turbines. When the gap is filled, which it was not very often during the dry season, it must be with expensive imported high-speed diesel from Malaysia. Curiously, despite the apparent decline in GOB purchases of diesel fuel, a reliable commodities trade watcher told us imports of diesel remained stable in FY 2003-04 (April-March). We suspect much of this imported fuel went to private generators (a necessity for all factories, hotels, office buildings, and those homes that can afford them) and trucks.

¶5. (C) However, supply of natural gas and the GOB's willingness to import diesel are only half the problem.

Energy sources report that infrastructure is in dire condition and there is little effort, or money, to fix it. Burma's pipelines are in a worrisome state and at least 2 of Rangoon's 11 gas/diesel-powered turbines are broken down. These infrastructure woes are compounded by 35-year old transmission lines (from remote hydropower plants which provide around 50 percent of Burma's electricity) that leak more than 40 percent of their load. The GOB seems to be taking some preliminary action to address this latter problem, seeking aid from South Korea to replace some or all of the country's existing 132 and 230 kV transmission lines with new 500 kV lines. However, there is no timetable for this upgrade.

Water Remains the Future

¶6. (C) The GOB's 30-year energy plan is obsessed with hydropower -- upgrading existing hydropower plants and building a vast network of new ones -- with no contingencies or strategies to capitalize on natural gas or other power sources. Currently, about 50 percent of Rangoon's electricity demands are met, or aren't met, by the aging Lawpita hydropower dam (built by the Japanese with war reparations) located east of Rangoon in Kayah State. It seems unlikely with the political situation as it is that on-again-off-again Japanese government financing for upgrades to this plant will resume anytime soon. However, with the help of significant and recurrent tranches of concessional Chinese government suppliers credit (ref B), the GOB is pressing ahead with a dozen hydropower projects aimed at adding 2000 mw to country's power generation capacity by ¶2006.

Comment: No Strategy, No Power

¶7. (C) We don't see the GOB approach being successful in the short run. Unpredictable onshore gas supplies could drop at any time, making Rangoon consumers more reliant on imported diesel or Godot-like hydropower. The latter seems unlikely. In 2003, the GOB asserted that two plants with 480 mw capacity would be finished by year's end. Neither was completed. In 2004, the GOB is predicting that only one plant near Mandalay with 75 mw capacity will be completed. We are doubtful. Even if it is done, though, it will likely have little impact on Rangoon's electricity woes. Nearly all notable plants with a chance of completion in the next couple of years are located in Upper Burma, far from Rangoon, and aimed at electrifying Mandalay and the nearby town of Kyaukse -- Than Shwe's hometown. Fortunately, Rangoon's residents and businesses have become adept at dealing with the GOB's damaging economic policies, and small-scale private power generation should continue to make up for some of the slack. End comment.
McMullen